

## ITEMS NEEDED TO BEGIN THE COST REPORT

### **A BALANCED BUDGET**

A prerequisite to cost reporting is a balanced budget. A LME/private provider's fiscal planning and budget development is not really a component of the cost report. It is a separate process that occurs long before the cost report is done. However, cost report requirements must be considered when the budget is being planned so costs can be captured as needed to complete the cost report.

Refer to the Chart of Accounts (or Matrix) in Appendix J to assist with cost center designations, chart of account line item number, and allocations to Administration and Direct Cost of Care.

The uniform chart of accounts must be used in budgeting and accounting (may also refer to the Matrix in Appendix J for additional information). Flexibility inherent in the chart of accounts can be used to simplify cost reporting. Cost reporting is easier if the following types of expenditures are easily identifiable, since they are treated as adjustments to expenses for cost report purposes:

- Expenditures for fixed assets
- Expenditures for moveable assets which will be depreciated
- Expenditures (payments) to Contract Providers
- Out-of-Compliance Amounts
- Mortgage Payments
- Contract production expenses
- County or Central Office Admin
- Interest Expense
- Rent Expense
- Fixed Asset Depreciation
- Moveable Asset Depreciation
- Inter-related party Rent

Summary level LME/private provider revenues must be listed by type (See Appendix L - Supplemental Forms #8 or Schedule of Revenue by Source):

- 1) Third Party Revenue: (Medicare, Medicaid, ICF-MR/DD, CAP/MRDD, contract receipts from other LME/private providers)
- 2) Local Revenue: (County Appropriations, Interest Income, Drug Sales, Cafeteria and Thrift Sales, Refunds from State Tax Payments, Local Public Agency Receipts)
- 3) State Revenue: (Mental Health, Substance Abuse, Developmental Disability, Supported Employment, Domiciliary Care)
- 4) CTSP (Assaultive Children, Willie M.) Revenue
- 5) MR/MI (old Thomas S.) Revenue
- 6) Federal Revenue - (Mental Health, Substance Abuse, Developmental Disability)

## **SERVICES**

Services are the components for which unit costs are found and rates are set. **It is critically important to develop an accurate list of services as a first step in the cost report process.**

Service information by cost centers is entered into the cost report application.

Appendix M provides a listing of all possible CAP-MR/DD, mental/behavioral health and residential treatment services.

## **INFORMATION FROM CONTRACT AGENCIES**

The cost reporting process requires information from contract agencies. The best time to specify these requirements is during the contract development and negotiation process, before the contract is signed. It is wise to include in the contract document a clause that specifies the information that must be provided to the program for the cost reporting process.

Contracted agencies must provide LME/private providers with timely information regarding the units provided and billed as well as the net contract cost to the LME/private provider (i.e. contract rate less third party revenue received).

## **DATA COLLECTION FOR EACH COST CENTER**

There is no predefined organizational structure for an LME/private provider's budget. However, special allocations may require separate cost centers, e.g. start-up, CTSP (old Willie M), MR/MI (old Thomas S.), CAP, etc.

A separate cost report Schedule 1 must be completed for each cost center or the LME/private provider should document if they consolidate several booked cost centers together for the cost report. The required data elements for completion of this schedule are:

### **Personnel Information**

All budgeted positions, both full time and part time, are included. In addition, professional service contractors that provide direct services must also be included. However, if it is known that a position will not be filled during the year, it is not to be included in the cost report analysis. Volunteers, non-paid student interns and staff who are paid by another agency are not to be included.

All personnel are allocated by cost centers to services through the Personnel screen as they are entered. Positions that are purely direct care should be assigned to a direct care service, which includes time providing the service, documenting it, any travel, training, paid vacation and sick time. Positions that are purely administrative should be assigned to the Administration service.

There is little difference between the General Support and Other Direct Support services, except for how the salaries for these positions are allocated. General Support positions are those indicated in the matrix (see Appendix J) as direct, but the provider can not directly assign to a particular service or cost center and wants to spread the cost proportionately across all cost centers. A common example for this would be a medical records person who works in multiple cost centers across the organization. According to the matrix this is a direct care position, but there is no way to track how much time is devoted to each individual service or cost center. So their time could be assigned to General Support and their salary will be spread across all services and cost centers of the organization. Let's use this medical records position again, but this time their time can be traced to only one cost center. Still can't narrow it down to one particular service, but since they only work in the one cost center, then the position should be assigned to the Other Direct Support service. This time their salary will be proportioned out to only the services provided in the one cost center. Another example of Other Direct Support time would be that clinical program manager who does some direct care with clients but

also supervises other staff. The direct care time would be assigned to the service they provided. To account for the time spent supervising other staff would be entered on another line as Other Direct Support if the position supports all of the service objectives related to the cost center the position is assigned to. If the supervising time and salary are to be directly assigned (e.g., because the position only supports a specific service rather than all services within the cost center), then the FTEs must be entered directly into the service on the Personnel screen.

For each position paid from the cost center the following information is to be documented:

Position Title: Each position must be identified by position title.

Name: Enter a name for each position or at least an ID number, if the user doesn't wish to identify the employees by name.

License: Is a new field that has been added this year. The license types allowed are shown in the drop down box for this field which include; AP, LP, QP-L, QP-non L and NA.

Annual Hours Worked: Enter the total hours worked for the year for the service(s). When total hours are entered, the FTE will automatically calculate and appear in the FTE column.

Annual FTE: An annualized full-time equivalency for the position is needed. If the position is split between cost centers, or between more than one service, this amount should reflect the **full-time equivalency for this line only**.

In calculating annualized full-time equivalencies, the following examples will serve as useful guidelines:

(1)—Using the Hours Worked column. When using this column, the FTE is automatically calculated for the user. The calculation takes the hours worked and divide that by 2080 (or 40 hrs a week times 52 weeks a year). Private providers will use this option; the LME programs may use either the Hours Worked or FTE column.

(2)—FTE column, part-time positions. Divide the scheduled number of work hours by the full-time work hours or 2080. A 20 hour per week position in an agency with a 40 hour full-time work week is .5 FTE.

(2)—FTE column, positions vacant for part of the year. Divide the weeks that the position is planned, or was filled, by 52. A position filled for 26 weeks is .5 FTE. Exclude any positions which are planned to be, or are, vacant for the entire year.

(3)—Professional service contracts accounted for on the Personnel screen. Divide the total number of hours contracted for the year by the program's established available hours. A contract for 100 hours of psychological testing, in an agency with 2060 available hours, is .048 FTE.

(4)—Split Positions that works in multiple cost centers and/or provide more than one service.  
A draw back of changing the Personnel screen from two screens to one is that if the employee works in more than one cost center or provides more than one service, they need to be entered on the Personnel screen multiple times for each service and/or cost center worked in. When using the Hours Worked column just enter the total hours worked for the year for each service and the FTE column will be calculated automatically. When using the FTE column, it needs to be divided on a percentage basis.

Total Wages \$: The annual wage amount for the position is needed.

Wages and Fringe Benefit \$s: There are some special cases on how to enter both wages and benefits based on if the employee provides more than one service in the same cost center or in different cost centers.

- (a) Provides more than one service in the same cost center – Enter the same salary and benefits on both lines for each service. These do not need to be entered on a proportional basis because the application will do that for the user.
- (b) Works in multiple cost centers -- Here the salary and benefits does need to be entered on a percentage basis.

See example of how this looks in the User Manual, Personnel – Multiple Services/Cost Centers section.

If the fringe benefit percentage is used, the cost report application can automatically calculate the amount of dollars associated with fringe benefits for positions, or the amount can be directly entered into the database.

### **Non-personnel Adjustments**

Non personnel adjustments take out those expenditures which are not allowed to be part of rates. Adjustments to expenditures include capital expenditures for fixed assets and expenditures for moveable assets, which will be depreciated. It is also necessary to adjust payments to contract agencies when these costs are included in the contract's expense distribution, so that double allocation of the same expenses is avoided. After calculating the adjusted expenses, this amount is distributed to services. This distribution is made through the Non Personnel Cost Assignment screen and can be done by direct assignment, or can be automatically allocated based on the Direct Care FTE distribution of the cost center.

Non-Personnel Costs \$: This is done automatically by the application as figures are entered on the non-personnel cost lines (2XX-8XX) on the Cost Center Expenses screen. This amount should be equal to:

Total Expense Center Summary Amount  
MINUS  
Total Salary and Fringe Benefit \$ (from the Personnel section of this form – 1XX)

Contract Production Expenses: The costs associated with production expenses in revenue generating work activity type programs are included as a part of unit cost, but only to the extent of revenue produced. These expenses include the cost of materials and client wages as well as staff support for finding and supervision of contract production work. These costs must be included in the Cost Report to balance to the audit figures of the LME/private provider, but should be deducted to the extent of the revenue generated. Any excess contract production costs (above revenue) can remain in the LME/private provider's costs. As a rough rule of thumb, contract production expenses should be about equal to contract production revenues.

Contract production expenses must be assigned to the relevant service(s) based on direct assignment of these expenses. This assignment of costs will take place in the Schedule 1 through the Personnel screen and assignment of net remaining costs on the Non Personnel Cost Assignment screen.

Other Adjustments: Indicate on this line any other adjustments made to the Non-Personnel total expenses in this cost center (e.g. related party rent, fixed and moveable asset expenditures). Explanations for these adjustments should be placed on the Notes worksheet (Appendix L – Supplemental Form #10).

Out-of-Compliance Amounts: These are items which are identified during the audit as out-of-compliance items. In the Notes worksheet (Appendix L – Supplemental Form #10), for the respective cost center, the LME/private provider should identify from which page of the audit the item was identified.

Mortgage Principal: This amount should be the total mortgage payments made by the LME/private provider. The total amount should not include any interest amounts. Also the mortgage payments total could include interrelated party rent payments. See the Special Consideration items on page 12 of this manual for details.

Central Allocation: This line is used by LMEs that had county administration costs allocated to them based on the County Cost Allocation Plan. There should not be costs indicated on this line that are already included in the other cost centers for the LME.

For private providers, this line is used for costs allocated to the provider from their central office (i.e. purchasing, payroll, rent) for which the provider did not record costs. These dollar amounts must be identified in the audit (or financial statements) and the audit must detail the allocation method. If the allocation method is not reasonable or can not be justified, the costs will be disallowed for cost reporting purposes. Only the costs associated with North Carolina should be included. If your audit totals include these costs, no entry is made to this line. In addition, if you have prepared other cost reports, only include the portion of the costs associated with mental health in this report.

Total Adjustments \$: This amount adds up all these adjustment lines (Contract Production, Other Adjustments, Out of Compliance, Mortgage Principal) minus Central Allocation to come up with the total adjustments.

### **Special Data Collection**

The following information is also needed to complete the cost reporting process. If it is possible to identify this data at the cost center level, the data is entered into each Cost Center Expenses screen – Schedule 1 with direct assignment and allocation options.

With the data being entered at the Schedule 1 level, where possible, these costs should be directly assigned to the specific service to which they are applicable. If some costs cannot be directly assigned, they are to be allocated based on the direct care FTE distribution between the applicable services.

Fixed Assets Depreciation: This depreciation amount is included in the unit cost and the reimbursement rate. The depreciation schedule used by the DMA auditor, the American Hospital Association (AHA), should be used. This is a straight-line depreciation method.

Since the fixed asset depreciation amount will be used in the calculation of rates for Medicaid reimbursement, the accuracy and completeness of fixed asset depreciation schedules is important. If AHA guidelines are not followed, a note on the Notes worksheet (Appendix L – Supplemental Form #10) should be added to describe the reason for the departure.

Depreciation amounts must be distributed to services. This distribution can be done by direct assignment, if appropriate. Costs that are not directly assigned are to be allocated to services based on the direct care FTE distribution.

The following information is needed to document depreciation:

- Expense Center
- Item Description
- Purchase Price
- Month and Year Purchased
- Number of Years of Useful Life
- Prior Year Accumulated Depreciation
- Current Year Depreciation Amount

Moveable Assets Depreciation: Moveable equipment is to be categorized into one of two groups: expended or depreciated. Moveable equipment may be expended in the cost report process if the acquisition cost of the item is less than \$5,000. If a LME/private provider's equipment capitalization policy utilizes a lower dollar limit, the lower limit must be used. It is recommended that the fixed asset system indicate which assets were expended in the year of acquisition for cost report purposes.

Moveable asset depreciation is included in both the unit cost and the Division reimbursement rate. The depreciation schedule used by the DMA auditor, the American Hospital Association's (AHA), should be used for determining the estimated useful life of moveable assets. If AHA guidelines are not followed, a note on the Notes worksheet (Appendix L – Supplemental Form #10) should be added to describe the reason for the departure.

Depreciation amounts must be distributed to services. This distribution can be done by direct assignment, if appropriate. Costs that are not directly assigned should be allocated to services based on the direct care FTE distribution. This is done on the Non Personnel Cost Assignment screen for the relevant cost center(s).

The following information is needed to document depreciation:

Expense Center  
Item Description  
Purchase Price  
Month and Year Purchased  
Number of Years of Useful Life  
Prior Year Accumulated Depreciation  
Current Year Depreciation Amount

Travel Expense: Travel Expense should represent the travel expense incurred by the organization for the year. This expense is a cost included in the total non-personnel costs.

Rent Expense: Rent expense is to be separately identified for the Division of Medical Assistance's review. This expense item is also a cost included in the total non-personnel costs. This expense should consist only of rent payments made to non-related parties of the LME/private provider. This means that if payments of rent are to related parties (associations of the LME/private provider or the county who owns the buildings/facilities) this payment is not a true rent payment, but takes on the character of the same payment made by the related party. For additional information, please consult the Special Consideration items listed on page 12 of this manual and/or the Division of Medical Assistance auditors.

Interest Expense: Interest expenses are to be separately identified for the Division of Medical Assistance's review. This expense is another cost included in the total non-personnel costs. This expense should consist primarily of mortgage interest, but could also result from any other loans or extensions of credit provided to the LME/private provider.

Adjusted Non Personnel Costs: This is a calculated field. This amount is equal to Non Personnel Costs plus Central Allocation minus (Contract Production, Other Adjustments, Out of Compliance and Mortgage Principal). This amount is transferred to the Non Personnel Cost Assignment screen along with the totals for the Special Data (Fix and Moveable Asset Depreciation, Travel, Rent and Interest) listed above.

### **Non Personnel Cost Assignment**

It is completely possible that users will not have to look at this screen. The application will automatically distribute the non personnel costs (which include Travel, Rent, Interest, Adjusted Non Personnel costs, Fixed and Moveable Asset Depreciation) based on the direct care FTE percentage. If there is no need to change this allocation, then nothing has to be done on this screen. The only reason to come to this screen is if one of these non personnel expenses needs to be directly assigned to a particular service. To directly assign a cost to a specific service, then just change the number to the desired amount. When this is done the number will change to a blue colored text, identifying it as a manual changed. This will also put a difference amount in the "Remaining to be Allocated" line. This line should always be zero, so to reallocate the amount, just double click on any figure in the same column of the one changed and the difference will be reallocated to the rest of the services.

### **Actual Units Data**

Actual units data should be available in the LME/private provider's computer system and a copy of this data should be sent with the cost report to the Controller's Office. This unit information can be validated through a number of comparative checks with other unit information available. These units should be compared to the units put into the cost report. For a copy of the Units memo, see Appendix E.